RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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May 15, 1991 **LETTER 1069**

May 3 DJIA 2938.86; PTI 3265; A-D Ratio -11.38
May 10 DJIA 2920.17; PTI 3270; A-D Ratio -11.38
Dow Yield: 3.14%; Dow P/E: 18.0; DowPow: 6
Dow 200-day MA: 2694; Dow 30-day MA: 2941
Dow Book Value: 1276; PTI 89-day MA: 3205
Percentage of Undervalued Blue-chips: 13%

QUICK TRIP: But first, a report: I just got back from a whirlwind Friday-Saturday-Sunday-and-out trip to NYC. Purpose, to show my 13-year old boy, Ryan, where I grew up. I didn't call anyone, so if you're an old buddy, please excuse me.

We walked -- a lot. Museums, restaurants, the NYSE, Broadway, 42nd Street, Trump Tower, the Empire State, Madison Ave, etc. My biggest reaction to the whole scene: the rich are getting richer and the poor are getting poorer. It's disconcerting and tragic to see million dollar diamond-and-ruby necklaces in Cartier's window and just down the block vagrants wrapped in cardboard are sleeping in building crevices.

The city is currently in contortions over its economic problems, and its mayor ("are you awake, David") Dinkins is finally being forced to "do something." The something consists of massive layoffs, a billion dollars in higher taxes and a shutting down of a distressing number of services. So that's Gotham, the best and the worst. The best restaurants and museums and stores in the nation, along with the worst poverty -- an army of vagrants and beggars. With a $3.5 billion budget deficit coming up and a crumbling infrastructure, will NYC make it? Don't ask me, I'm just a tourist now.

THE MARKET: Here are some of the places I'm watching. On April 29 the advance-decline ratio finally dropped over one full point from its highest level. The over-one-point drop signaled the end of the "buying stampede", a stampede that began at the January 15 low of minus 17.95 on the A-D ratio and ended on April 17 at minus 10.71.

Is Alan Greenspan reading these Letters? Well, I doubt it, but the day after the stampede ended the Federal Reserve Board lowered the discount rate a full one-half percent to 5.5%. Why did they do it? My feeling is that under pressure from the President, the Treasury Secretary and everyone else, Greenspan just threw in the sponge. Ironically, only a few days earlier, the G-7 nations (fearing inflation) turned a deaf ear on the US' plea to lower world interest rates. So the Fed went it alone.

My friends at *M.J. Capital* (Great Neck, NY) put it this way: "Remember, the presidential election of 1992 is approaching fast, and the memory of Desert Storm is fading fast. Next year at this time people will be thinking, and voting, with their wallets. That leaves Mr. Bush and company a few short months to revive this economy. Lower rates and a lower dollar could help the administration achieve its goal and retain power."

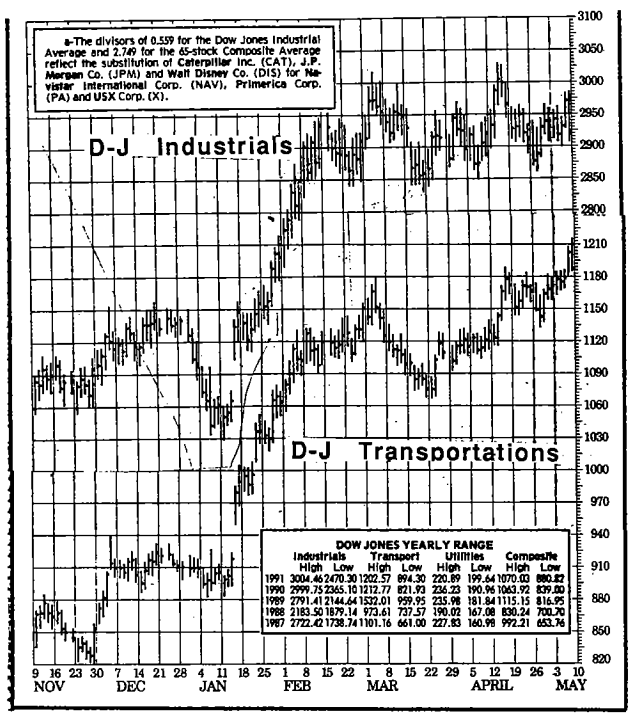
So the Administration now has everything it asked for -- three consecutive drops in the discount rate, lower Fed Funds, adjusted reserves in the banking system rising, free reserves bubbling over. What remains? All that remains is for the consumer to borrow more and spend more. That's the formula for turning this recession around. So we'll see whether cheaper money will do the trick.

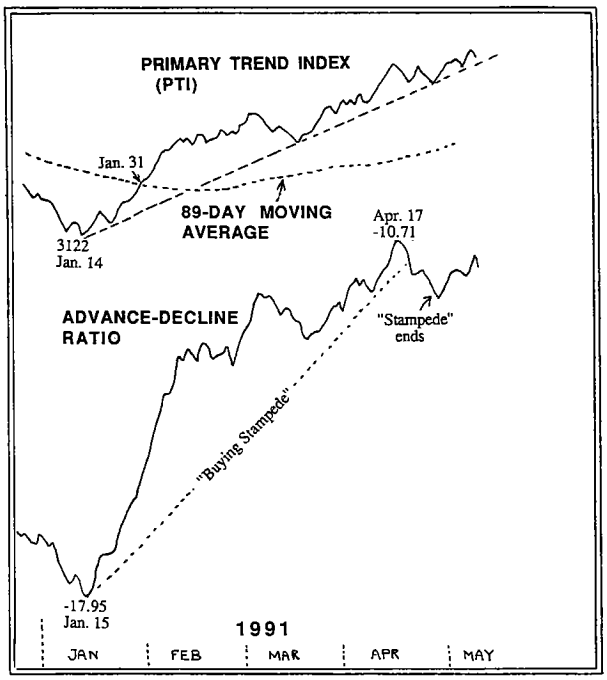
From an historical standpoint, the stock market now possesses powerful ammunition. There have been six times in the past when the Fed has lowered the discount rate three times in a row. The record for the stock market has been unanimous -- it advanced. Here's the record. It's a record that is well known by all Wall Street observers. Will the stock market perform as advertised?

Discount rate		% change of Dow	
First cut	Third cut	Between cuts	1 year later
Jan. 24, '58	Apr. 18, '58	-0.3%	38.9%
Nov. 13, '70	Jan. 8, '71	10.2	11.4
Jan. 10, '75	Mar. 10, '75	17.8	28.2
Feb. 15, '80	June 13, '80	-1.0	14.8
July 20, '82	Aug. 16, '82	-4.9	50.2
Mar. 10, '86	July 11, '86	7.0	34.8
Dec. 18, '90	Apr. 30, '91	9.9	??
Average Dow changes		5.5	29.7

But why guess? On May 8 the D-J Transportation Average rallied to a new high for 1991. It now remains for the Dow to confirm; a confirmation would entail the Dow bettering **3004.46.** If the Dow can better 3004.46, the market will receive the "all clear" signal. On the other hand, and this is important, a stubborn refusal by the Dow to clear 3004.46 will be a sign of trouble. As this is written, a non-confirmation is in place, and how this non-confirmation is resolved will tell us a lot about where this market is going.

My Primary Trend Index (PTI) continues on its bullish path. Note (page 2 chart) that the PTI has been climbing above an important trendline. The trendline has been tested repeatedly, and each time the PTI has pushed off that trendline. So label the PTI bullish.





The percentage of blue-chip stocks that are undervalued has now dropped to **13%.** This is an extremely low and dangerous level. It's the lowest level since 12% at the 1987 high, prior to the great October crash.

Here's what *IQ Trends* of La Jolla (they compile the overvalued-undervalued statistics) say in their latest report: "*When the number of Undervalued stocks falls below 20%, the market is at or near a price peak. At the top of the trend in January, 1973, prior to a 40% decline in the Dow which carried prices all the way down from Overvalue to Undervalue, 17% of the stocks listed in IQ Trends were Undervalued. In August 1987, two months before the infamous October crash, that figure was 12%. In 1989, two months before the October mini-crash, the figure was 13%. The latest figure is again at 13% . . . The message is now loud and clear. It speaks of caution; it speaks of danger; it points to a broadening market top which began in 1987, from which a major decline will be launched.*"

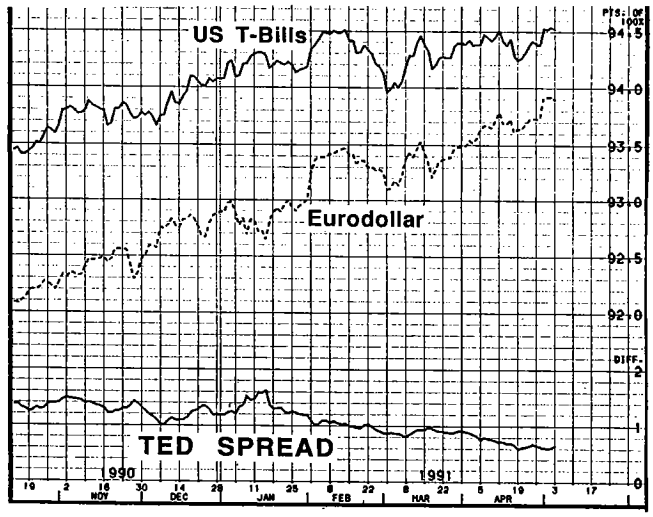
Dove-tailing with the above, it is notable that at the recent Dow high, over 80% of all stocks were above their 200-day moving average. This is the first time in five years that this has happened, and it tends to coincide with a peak in momentum.

Bob Farrell of Merrill Lynch writes, "*Although not at excessive extremes, almost all our sentiment measures are trending towards bearish readings. This is not the background for a long-lasting advance, unless skepticism is rekindled in a reaction.*" Russell comment: If the market turned down here, in the face of the recession, I would certainly expect fear and skepticism to rise.

Farrell also notes that NASDAQ volume exceeded NYSE volume on four weeks running, the first time this has ever happened. I interpret this as the public and probably many funds chasing willy-nilly after every stock that wasn't nailed down.

Sentiment: As I see it, sentiment towards the market remains exceedingly optimistic. It is notable that the cash levels of 1230 stock funds has plunged to 5.5%, lowest level since these records were started in January of 1980.

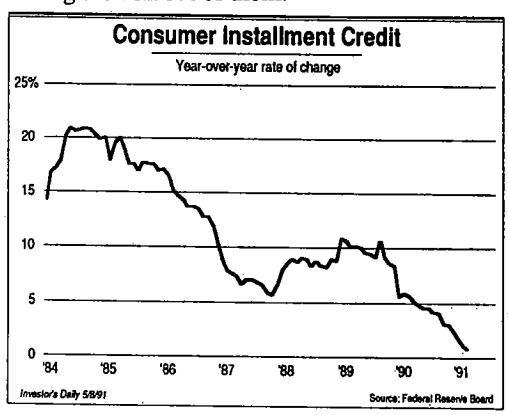
But perhaps the most telling item on the sentiment parade is the **TED spread** (see last Letter). This is the yield-spread between super-safe T-bills and more speculative but higher yielding Eurodollars. The spread has now dropped to a very low .61. It seldom goes lower. Thus, the TED spread is saying that investors see no scares, no emergencies, no shockers on the horizon. My view: The TED spread is a buy. The downside risk is almost negligible and the upside possibilities are open-ended. But since you're buying contract futures, your main risk is that you're fighting time -- the TED spread could expire with any trouble still weeks or months away. This chart (courtesy of *Commodity Research Bureau*) shows the **TED.**



I continue to be fascinated by the strength in the **D-J Transportation Average.** As noted in the last Letter, nine out of the 20 carriers lost money in the first quarter. So the Average actually showed negative earnings and a P/E ratio that is at infinity. What does the market see ahead for the Transports? It's got to be something awfully good.

Big problem: The **American consumer**, who accounts for 70% of GNP, isn't increasing his spending. Why? Real disposable income is declining, high level of debts, rising taxes, deflation of assets (mainly homes), and all this in the face of recession. It's something new for Americans. It's unprecedented. And it certainly isn't helping to bring consumers to the spending trough.

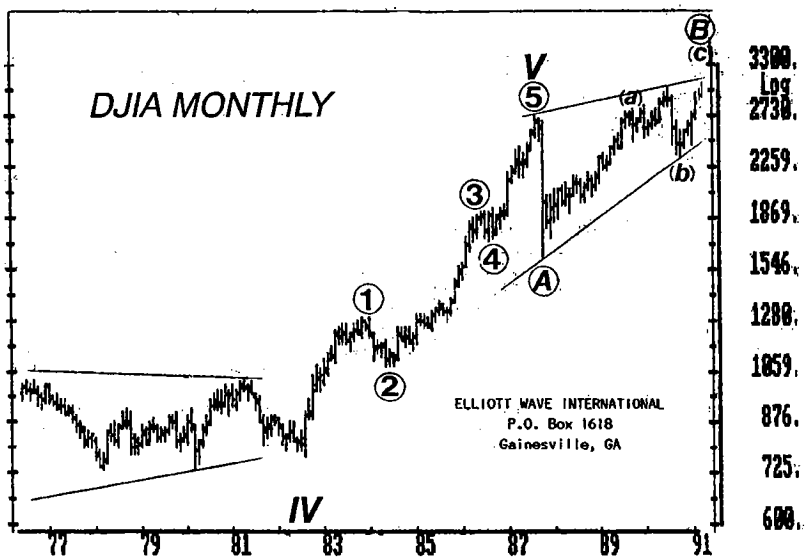
This chart (courtesy *Investor's Daily*) shows an interesting phenomenon. Here we see eight consecutive months of decelerating (year-to-year) growth in consumer installment credit. The Fed and the administration would love to reverse this graph -- it's been scaring the hell out of them.

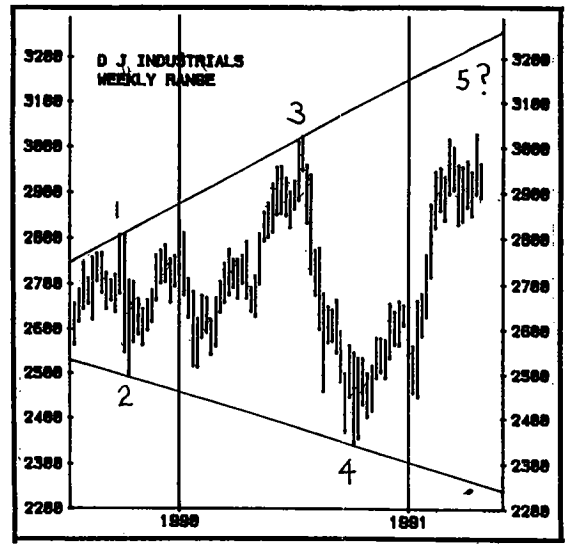


But are people really worried? If they were, then classically they would be boosting their savings rate. That isn't happening. The amazing fact is that savings in the US is now down to 4.1%, half a point lower that the 1989 and 1990 rate. Again, why? The theory -- people are borrowing in an effort to keep up their standard of living. They can't save. They just can't do it.

Question: Russell, with all the great market action of 1990, how the devil can you continue to show the bear in the Investment Position box?

Answer: The reason I continue to show the bear in the box is that I believe the primary bull trend ended in October 1987 just prior to the great crash. I believe that all the action since then has been part of continuing topping action.





I haven't mentioned Elliott Wave theory for years (I used to write a lot about it), but Elliott classification plays an important part in the way I see this market. The best illustration of the Elliott approach is provided by this chart from Bob Prechter's latest report (*The Elliott Wave Theorist,* Gainesville, GA).

In Elliott terms bull markets are composed of five major waves, A-B-C-D-E. The A, C and E waves are rising waves, while the B and D are corrective down-waves. Bear markets are composed of three major waves, the first and third waves (A and C) are down-waves and the middle (B) wave is a rising or upward correcting wave.

The current market situation is shown on this chart, which you should study carefully. The chart depicts the last rising wave of the bull market (**IV** to **V**), and then the development of the bear market. The bear market (so far) consists of all the action following the **V** point which was recorded in 1987.

As stated, the rise to **V** completed the great bull market. The bear market (as do all bear markets) should take the form of a giant **A, B, C** downward slanting pattern.

The initial or **A** leg of the bear market was the massive 1987 crash. The current **B** leg is much more complicated, and it breaks down into a smaller (a)-(b)-(c) pattern. Part of the **B** leg is completed, but the rising wave from (b) to (c) may not be complete. It is not unusual in some bear markets for the **B** leg to record a new high, and that's probably what we saw in the current situation, when the Dow rose to a new record high above its 1987 high of 2722.42 (even though 2722.42 was the true top).

We're now in the final rise which should end the **B** leg of the bear market. Prechter thinks that this final rising leg could take the Dow to the upper trendline. That would mean a final advance in the Dow to around 3200 to 3250.

After that, the big **C** leg of the bear market should begin. Prechter believes the **C** leg could take the Dow down 2000 points. Assuming the current leg to **B** ends at Dow 3200, that would mean a bear market decline down to 1200 on the Dow.

Is that the way I see it? I believe the general form of the bull market and developing bear market as shown on this Prechter chart is correct. But I'm open as far as where this current rise will take the Dow. And I guess I'm skeptical as to whether the Dow will climb as high as 3250, but anything's possible.

So we've had the crash of 1987, then we had the big post-crash rise to the '89 high, next we had the mini-crash of October '89, and currently we've had the latest advance to Dow 3004.46.

One thing that fascinates me is that with all this post-1987 action the Dow is only 7-8% above its 1987 peak (2722.42) of almost four years ago. That's hardly impressive. To me, it smacks of deceptive action on the part of the bear.

Here's another interpretation of current market events from Bill Bretz, who writes *Juncture Recognition* (Pompano Beach, FL). Bill has been drawing attention to "the broadening wedge pattern of the Dow over the past year and a half" (see chart above). He continues, "I have commented before about how dangerous this pattern is . . . However, one look will tell you that this is a market that doesn't know where it's going. The bears drive it down because they fear it's overvalued, then the bulls drive it up because they think it's a new bull market. If the market advance continues for another few weeks, the Dow would have to rise to around 3250 on the intra-day basis to reach the upper trendline. It may not be able to do that well. For example, if we expect the rise from October to be a five-wave rise, and the first and last waves are approximately equal, then the intra-day rise would top at about 3150. Closing prices would be lower."

Conclusion: We've got a stock market which is overvalued and overbought. It's a market that's near the highs in the face of a recession and maybe a global recession. We've got a market that has discounted a coming "upturn in the economy", but it's an upturn that has yet to materialize. A year ago the consensus of economists was that "there would be no recession." Now the consensus of economists is, "Yes, it's a recession, but it will end by mid-year." Because the market is overvalued and overbought and because sentiment is wildly optimistic, I'm watching the show from the sidelines. And I'm patiently waiting for the long-promised signs that the recession is over.

INVESTMENT POSITION: You can be a conservative "value investor" and watch this overvalued market play out its hand. Or you can be a cold, unemotional trader and simply follow my Primary Trend Index. With only 13% of the blue-chip stocks undervalued as per the statistics section on page 1, this market is in dangerous territory.

Conservative investors will therefore wait out the market, holding their cash until the undervalued percentage pushes above 75% or even 80%. That will identify a great value area, an area at or near a major bear market bottom.

The traders will say "The hell with it, I'm going with the trend, and I don't care what the values are." Take your choice.

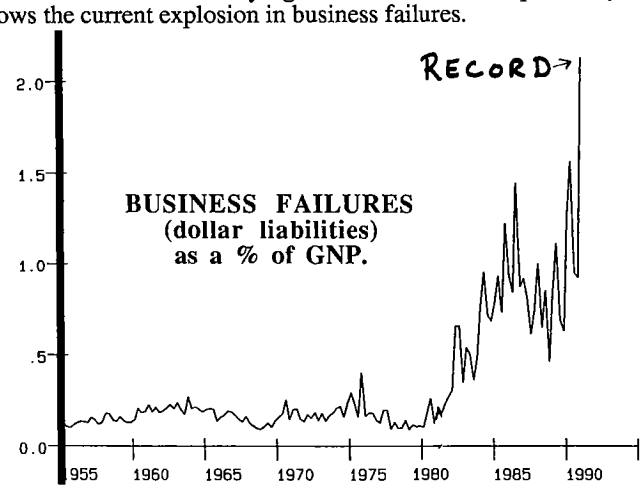
The marvelous thing about the stock market is this -- **it's always there.** Make a mistake, and you can call your broker and blow out

that mistake in 30 seconds (try doing that in your own business). Miss a move, and it's just a matter of time before a second and a third and a fourth opportunity arrives. Sell too soon, and you can buy back in a few minutes.

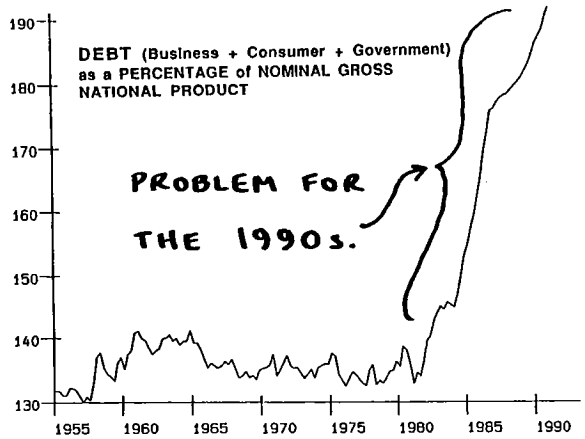
Where else can you be presented with this kind of opportunity? The stock market is always there -- but remember this, to be an investor or a trader, you've got to have the magic tool. That tool is known as money (and that's something that isn't always there).

Somewhere ahead we're going to see the buying area of the decade or maybe of a few decades. That area will offer great, even fabulous, values. But we'll need two items if we are to benefit from the area of great values. They are patience and money.

COMMENTS & CHARTS: Ed Hyman (*International Strategy and Investment,* New York) consistently puts out the most significant economic charts of any I've seen anywhere. Here are three that are worth studying. The first is self-explanatory. It shows the current explosion in business failures.

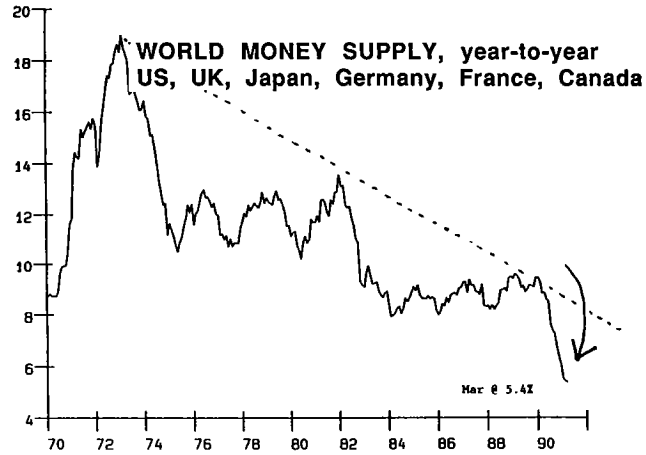


The second chart shows Debt as a percentage of Nominal Gross National Product. I don't think this chart needs any deep explanation either.



The third of Ed Hyman's charts is a bit of a shocker. It shows world money supply (year-to-year basis) dropping to its lowest level in decades. With the global demand for money currently very acute, the supply of money is shrinking. Ordinarily you would think this intense need for scarce money would drive interest rates up. And it may yet.

Lawrence Summers, chief economist for the World Bank, believes that the world demand for new capital will reach upwards of $2.5 trillion. This touched off comments around the world such as "global problems of liquidity," "capital shortages," and "inadequate savings." Summers' list of capital needs includes up to $50 billion



for Kuwait, up to $30 billion for Saudi Arabia, $100 billion plus for Iraq, $20 billion for Iran, up to $400 billion for German reunification, $500 billion to $1 trillion for Eastern Europe and the Soviets, $250 billion plus to cover rising US budget deficits, up to $500 billion for an infrastructure program for Japan, and $300 billion for a similar buildup in Taiwan.

How all this will work out and how it will impact on the credit and equity markets I haven't figured out yet. But if they issue anything like this amount of paper and credits, it sounds kind of inflationary to me.

NOTES & QUOTES: On May 7 the *New York Times* reported that Saddam Hussein pulled out his pistol and fired shots over the head of an ecstatic crowd. The crowd "went wild, leaping up and down as they chanted, 'Bush, Bush, listen carefully, we all love Saddam Hussein.'" The article continued, "Iraqis saw the shots as a gesture of defiance toward the United States and its allies, a reminder of the President's claim that he has resisted the forces of imperialism and Zionism, a part of the Orwellian rewriting of history underway here as Iraq -- and indeed the world -- comes to terms with the fact that Mr. Hussein has survived the Persian Gulf war and seems almost as firmly in power as ever."

Note: General Schwarzkopf wanted to go in and finish off both the Iraqi army and Hussein. Bush said no. Now it turns out the Colin Powell felt that sanctions should have been used rather than war. Again, Bush said no. As far as I'm concerned, the whole war was a waste of money and lives. It was an US ego trip, and its aftermath is a disaster. The brutal fact -- Saddam is still in power. Bush has to have second and third thoughts about his actions. And I seriously wonder whether this mess was not instrumental in giving Bush heart palpitations.

* *

Federal Reserve Governor Wayne Angell ties any recovery to a decline in long-term interest rates. But this isn't happening. Long-term bond yields are around 8.10%, roughly the same level they were a year ago. Why? Probably the fear that any economic upturn will heat up the forces of inflation. Or it could be fear of the steadily rising flood of Treasury securities that is hitting the market. The market seems to believe that no matter what, 8% is about as low as long-term bond rates are going to go -- this to the frustration and consternation of the Fed, which has been bringing down short-term rates. Currently, the gap between short-term and long-term rates is the widest since 1987.

* *

Testifying before the Senate Banking Committee, former Fed chief Paul Volcker said that taxpayers will end up bailing out the bank fund. Volcker said that "commercial banks themselves cannot be expected to provide a really significant portion of the funds beyond the much-increased premiums already announced." Volcker called on Congress to quickly give the FDIC the money it needs to insure depositors. Failure to do so, he warned, could shake confidence in the entire banking system. Volcker also warned against bringing down the barriers between banking and commerce and allowing industrial firms to own banks (is Washington listening?).

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Eye-Openers: This year's federal budget is approaching TWICE the size of Reagan's record, but few commentators are noticing. Another change: in 1986 the federal budget was in deficit but this was at least offset by a $62.8 billion surplus in state and local surpluses. That year the total budget deficit at all levels was 3.76% of GNP. But in 1991 with almost every crack and cranny of the US in deficit, the total budget deficit has risen to 6.4% of GNP. But currently, nobody seems to be noticing the deficit.

Conclusion: Watch the deficits start to make the headlines as the recession drags on. One place where the deficits are having an effect is in the bond market, where the Treasury offerings are getting larger and LARGER. Two weeks ago at the quarterly refunding the Treasury announced that it would sell a record $37 billion of securities. As you know, these securities go at auction. There's no question as to whether they'll sell -- the only question is -- at what price.

* *

What's happening in the Soviets is truly fantastic. The current issue of *Time* magazine carries an incisive article which states that the Soviet military-industrial complex "accounts for up to 50% of total Soviet industrial output and employs more than five million people." This is the most mindless situation I've ever heard of. With no real enemies on the horizon, it's as if the paranoid and powerful Soviet military has run totally wild.

Meanwhile, the Soviet economy is in a freefall, it's coming apart at the seams. The Soviets are suffering a credit crunch of massive proportions. It's unable to borrow money outside, and it can't raise money internally. The fact is that the country is going broke -- and fast. The Soviets used to be an excellent credit risk. No more. Soviet foreign debt is now $65 billion, and the country is falling behind on its debt payments.

As I see it, the Soviets must cut way back on its military, and I mean WAY BACK. There's absolutely no need for its huge military, and for that matter, there's no need for the US' massive military either. But that's just part of the Soviet problem. The rest is the Soviets' insane refusal to move rapidly towards a free market. So look for trouble out of the Soviet situation, possibly an internal revolution. Something is going to give -- and soon.

* *

There's an interesting squeeze on, one that very few people are aware of. It's this -- the deficit-reduction accord that Congress and the White House struck last autumn IS WORKING. Says Sen. Jim Sasser, Chairman of the Senate Budget Committee, "It's the most demanding fiscal discipline Congress ever imposed on itself." The fact is that the new agreement has teeth, and it's beginning to bite (ironically, it's biting during a recession).

The new rules put spending caps on three huge categories -- domestic programs, defense and international outlays. It also imposes a pay-as-you-go provision that requires Congress to offset tax cuts with tax increases and simultaneously prohibits any proposal for an expansion of a mandatory benefit program that isn't accompanied by a companion plan for offsetting reductions or tax increases. So the new rules are very much tougher than the almost useless Gramm-Rudman targets. Last week House Ways and Means Chairman Rostenkowski put advocates of popular tax breaks for research, mortgage revenue bonds and low-income housing on notice that for the first time they will have to come up with tax increases to offset any revenue losses. Russell comment: It's all to the good, but it also is the beginning of "The Big Squeeze." Washington and every other government in the US needs money. The compounding deficits are beginning to hit the US standard of living -- hard.

* *

One place that is not working is the US Post Office. What's happening there is a national scandal. After raising first class postage rates to 29 cents, the latest word from the Postal Service is that they suffered a $1.4 billion loss for the first half of fiscal 1991. There's only one solution for the Postal Service. Privatize it. As a public agency, it's utterly hopeless.

* *

This interesting comment from S.C.L., a subscriber, "A tax on capital gains is the worst possible tax for any nation . . . The politician who tells his electors he is doing good for them by surtaxing the wealthy is either a fool or a deliberate liar! I have met few people in 58 years of working life who object in principle to a progressive income tax, though many think governments have gone too far in that direction. But a tax on gains made from any new concept is a terrible drag on new enterprise -- from a one-man operation to major new industrial development; heads you lose your investment,tails we take a big bite of it in tax if you succeed."

* *

Recession: preliminary figures from the administrative offices of the US District Court indicate that a record 735,000 Americans filed for personal bankruptcy in 1990. The recent low was 285,000 personal filings in 1984.

* *

How sure are Las Vegas hoteliers that people will gamble? Pretty darn sure. I was amazed at a full page offer that appeared in the April 26 *LA Times*. The ad was from Bob Stupak's Vegas World hotel. You make a reservation for a 3-day, 2-night stay at the Vegas World and send in $396. When you get there the hotel will give you back $400, meaning that you make $4 on the deal, no strings attached. It's a real bargain, assuming, of course, that you don't lose your shirt gambling. The offer is open until January 15, 1993. I'm tempted myself.

* *

Last time the US was in recession (during the early '80s) taxes were being reduced. This time it's different. The massive spending and resultant deficits of the '80s have come home to roost, and now we're seeing the beginning of "pay-off time." From every side Americans are being bombarded with more taxes, federal taxes, state taxes, county taxes, city taxes, property taxes, sin taxes, surtaxes, sales taxes, corporate taxes and plans for additional taxes.

* *

I clipped from two different April 29 newspapers. The old adage reads, "Two things are certain -- death and taxes." Today you can revise that to read, "Three things are certain in America -- debt, death and taxes."

Small Firms Feel Harassed Over Taxes

By Lee Berton
Staff Reporter of The Wall Street Journal

Complaints are growing that state and city tax collectors are putting growing pressure on small business.

Some accountants and lawyers blame budget cuts and harried tax-collection offices. Others suspect that bureaucrats welcome the problem because the zealous en-

Frustration is becoming particularly acute in New York City. 'More and more taxpayers are surrendering because they just can't take the pain and suffering to'

85 Percent of All Households In Debt In 1990

By JOHN D. McCLAIN
Associated Press Writer

WASHINGTON — Eighty-five percent of all American households owed money at some time last year

automobile and some household loans often is longer now than in the past and that the net worth of U.S. households had increased over the decade.

But Merrill Lynch's Steinberg and the Fed authors all said the increase was due to bankruptcy losing much of the stigma that once accompanied it.

* *

The incredible shrinking magazines: with advertising off sharply and profits sinking, many of your favorite magazines are cutting their size. New shrinkers on the list are *HG*, *Elle*, *Premier*, and *Mirabella*. One magazine, *Town and Country*, increased its size. *T & C* is the ultimate upscale mag. If you want to know what the rich and famous and pedigreed are doing, I recommend the new larger *Town and Country* (it's also printed on about the glossiest paper in the industry).

* *

The US now has 426 out of every 100,000 of its citizens in prison. This is the highest percentage of any nation in the world (runners up: S. Africa with 333 and Soviets with 268). Not only that, the cost of locking up one million people in the US is $16 billion a year. All this is happening while US crime rates are hitting new highs. What's wrong? I feel that the root causes are drugs, the break-up of the family (particularly black families where 3,109 blacks per 100,000 are incarcerated), the loss of the father role model, poverty, illiteracy. And over the long term, I've always felt that inflation is conducive to crime. The government's systematic policy of inflation is basically immoral. Inflation robs people of their savings and it lowers people's standard of living and makes a mockery of the work ethic ("If the government is robbing us, why should we do anything different? And why save?").

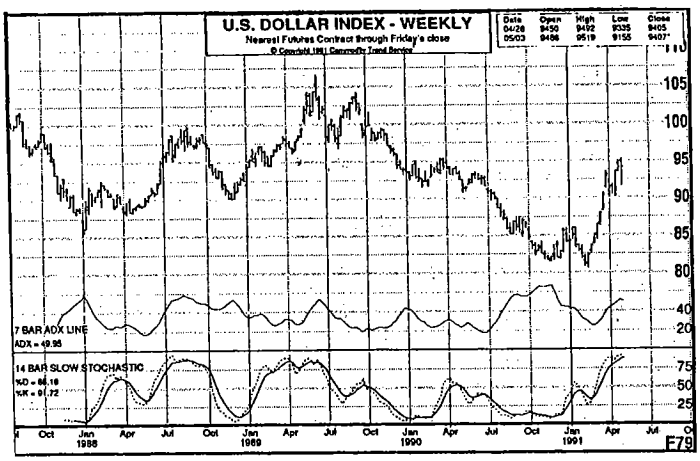
Remember how the rebuilding of Kuwait was supposed to be a bonanza for American business? Forget it. According to AP, "The reconstruction of Kuwait is turning out to be less of a bonanza and more of a boondoggle for many American companies." Problems: nobody's in charge, intense competition, politicial instability, bureaucracy and a culturally alien environment. "Furthermore, Kuwait's infrastructure is damaged far less severely than initially thought, altering the countries needs and drastically reducing the amount of necessary business." Said one report, "People are gradually realizing that the Middle East is a difficult place to do business. Kuwatis didn't just fall off a turnip truck. They know what they're doing. They're not about to hand out cash willy-nilly."

* *

Some years ago the Grace Commission was asked to come up with a cost-cutting plan for the government. The Commission did just that, and the government studiously ignored the report. But the Commission has not given up. They now report that the government could save $424 billion over three years by enacting the Grace Commission's latest detailed list of recommmendations. Are our leaders interested? Hardly. What the Bush Administration is mainly interested in is getting America's consumers to BORROW more and SPEND more.

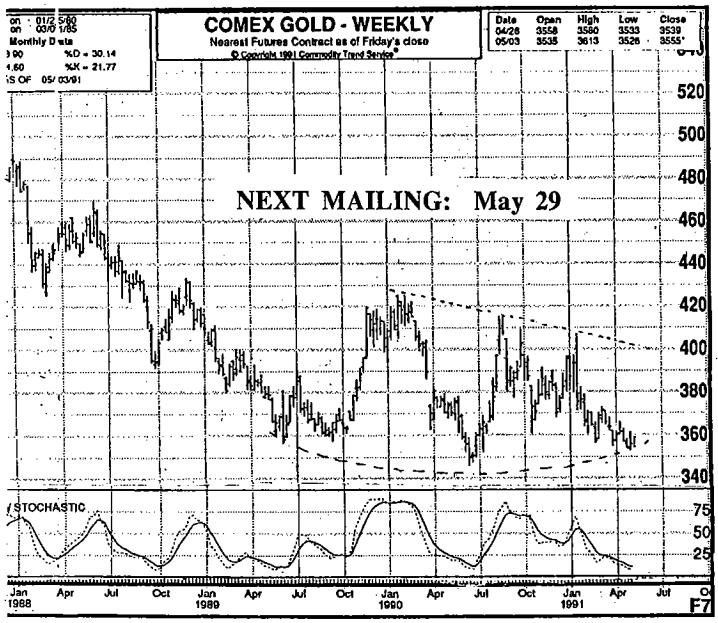
I don't ordinarily include flyers with these mailings, but this one directs your attention to two of my favorite seminars, which happen to take place in two of my favorite cities -- so please consider attending one or both.

DOLLAR: This chart (courtesy of *Commodity Trend Service,* PO Box 32309, Palm Beach Gardens, Fl. 33420) shows the weekly path of the US Dollar Index. The ADX line (which I don't have space to explain here) has turned down, implying a change of trend. The stochastics (bottom line) are over 75 implying an overbought market, and the dotted stochastic line is about to cross below the solid line, which would constitute a sell signal. My opinion: the dollar is close to topping out. US interest rates (compared to world-wide rates) are now very uncompetitive. Furthermore, by the end of the year the EEC will come into being, and at that time an unified economic power greater than the US will have arrived. The US with its massive deficits and inflationary bent will find the dollar faced with fierce competition.



LATE NOTES: Are the programs running this market or what? Thursday (May 9) the Dow was up 40 points. The next day (on the pretext of a poor government bond auction) the Dow was down 51 points. But the flagrant non-confirmation on the part of Industrials (Transports had rallied to a new high) was, in my opinion, the real reason for the sell-off.

Both the **PTI** and the **A-D ratio** are currently walking just above rising trendlines (see page 2 chart). If those trendlines are violated, it could be the start of real trouble.



GOLD: I am showing the weekly chart (courtesy of *Commodity Trend Services*) of gold together with the stochastics. The stochastics are based on the rate of change in the daily high, low and close prices. Stochastics below 25 usually connote an oversold condition. Signals are also given when the shorter (dotted line) stochastic crosses the longer (solid line) stochastic. As you can see, gold, which is currently oversold, is poised for a bullish signal.

Watch the June gold contract. A price of 365 would reverse a two-month declining trendline and also take gold above its 40-day moving average, which now stands at 362.

I also feel that sentiment (which is very bearish on gold) is right for a good bullish move. Said Clem Sunter, chairman of Anglo American's gold and uranium division, "Gold is a commodity," and no longer "a store of value." This is the sort of drivel and nonsense we heard back in the 1970s, prior to the massive bull market in gold.

My oscillators (McClellan Oscillator) on both stocks and bonds have now turned bearish. When these oscillators turn down, it gives us an opportunity to measure the level of selling pressure that comes into the markets.

Maybe the easiest way to gauge this market is to watch critical support levels on two widely watched composites. Let's watch the **362** level on the **S&P 500** and the **200** level on the **NYSE Composite**. As long as the indices hold above these two levels, the market will remain basically intact. But if those two levels go -- major trouble.

The core concept of the Dow Theory has to do with VALUES. On that basis, as I've been saying for quite some time, this market is a dangerous one. The public is now up to its neck in stocks (or mutual funds). The funds themselves are up to their necks in equities (they hold record low levels of cash), which means that almost everyone is now positioned, ready and hoping for higher prices. Even skeptical traders are positioned for that "last surge to Dow 3250." Will the market oblige? We'll find out soon enough.

Certainly, Wall Street has given the bulls ample chance to load up with stocks. The market has moved essentialy sideways since mid-February, giving everyone plenty of time to climb aboard.

Signs of the times: The CRB Commodity Futures Index dropped to 214.06 last Friday, lowest level in three months (the Index is heavily weighted for agricultural products). . . . The low estimate for Southeby's latest sale of modern and impressionist paintings was $31.4 million. The shocker -- the sale brought in only $18.2 million. . . With the inclusion of JP Morgan, Caterpillar and Disney in the Dow, the Dow yield has dropped to 3.14%. Compare this with the guaranteed 7% yield on the Treasury three-year notes.